

# 630-007

## ISM

### *C.P.M. Module 3: Value Enhancement Strategies*

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| <b>Exam Name:</b> | <b>C.P.M. Module 3: Value Enhancement Strategies</b> |                         |                |
| <b>Exam Type:</b> | <b>ISM</b>   | <b>Exam Code:</b>       | <b>630-007</b> |
| <b>Doc Type:</b>  | <b>Q &amp; A with Explanations</b>                   | <b>Total Questions:</b> | <b>202</b>     |

**Question: 1**

What does the payment term "2% 10/net 30" mean?

- A. There is a 2% discount off the final price if paid within 10 business days from the date of the invoice. If not, the balance is due in 30 days from the date of the invoice.
- B. Two percent of the invoice is due within 10 days from the date of the invoice. The balance is due within 30 days from the date of the invoice.
- C. There is a 2% discount off the final price if paid within 10 days from the date of acceptance. The balance is due within 30 days of the date of the invoice.
- D. There is a 2% discount off the final price if paid within 10 days from the date of the invoice. If not, the balance is due in 30 days from the date of the invoice

**Answer: D**

**Question: 2**

Early supplier involvement (ESI) is advantageous PRIMARILY for which of the following reasons?

- A. It requires supplier input into product reconfiguration.
- B. It reduces the need for new technology.
- C. It ensures lower prices.
- D. It promotes higher quality

**Answer: D**

**Question: 3**

A technique for reducing financial risk when purchasing globally is to use

- A. currency contracts
- B. global market analysis
- C. inventory stockpiling
- D. offshore offices

**Answer: A**

**Question: 4**

Buyer Smith receives a requisition from XYZ, Inc.'s accounting department for a new photocopier. The current equipment needs immediate replacement, but has a residual value of \$600. XYZ has instituted a freeze on capital spending for all non-manufacturing related equipment. Smith calls a local distributor, who offers to lease XYZ a copier with one year free maintenance and supplies. The costs of such maintenance agreements typically average about \$.01 per copy. The distributor also offers XYZ \$450 for its current equipment. Given this information, which of the following is the BEST course of action for Smith to take?

- A. Sign a third-party lease through a bank, based on 100,000 copies per month
- B. Sign an operating lease through the distributor for payments of \$.015 per copy, based on 100,000 copies per month
- C. Purchase the equipment at a cost of \$16,000, minus a trade-in of \$1,200
- D. Sign a capital lease, based on 100,000 copies per month

**Answer: B**

**Question: 5**

Which of the following refers to the practice of identifying a selling price and subsequently working with a supplier to arrive at an approximate cost for achieving profitable sales?

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- A. Long-term agreements with flexible increase and decrease in cost
- B. Price base costing for the target price
- C. A supplier-coordinated cost reduction program
- D. A reduced learning curve

**Answer: B**

**Question: 6**

Which of the following terms refers to material that is no longer needed due to changes in the reason for its acquisition?

- A. Excess
- B. Obsolete
- C. Scrap
- D. Surplus

**Answer: B**

**Question: 7**

In determining the most effective financing method for a piece of capital equipment that has a lead time of more than 12 months, the buyer should consider all of the following EXCEPT

- A. depreciation
- B. supplier financing
- C. interest rates
- D. cash flow

**Answer: A**

**Question: 8**

The use of early supplier involvement is likely to result in all of the following benefits EXCEPT:

- A. A reduction in cycle time from product design to production
- B. The ability to consider all supplier ideas equally
- C. The ability to consider cost and design options
- D. The consideration of supplier ideas prior to the finalization of specifications

**Answer: B**

**Question: 9.**

Which of the following factors will contribute the MOST to reducing a new product's time to market?

- A. Ease with which a firm can manufacture an item
- B. Component availability and economy at the time a firm needs an item
- C. Use of a single engineer rather than a design team approach
- D. Technical support suppliers provide in the early stages of design

**Answer: D**

**Question: 10**

Valuation of inventory may be done using all of the following EXCEPT

- A. LIFO
- B. FIFO

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- C. the ABC concept
- D. lower of cost or market

**Answer: C**

**Question: 11**

A purchaser is negotiating a contract for which production and delivery will be stretched out over a 24-month period. If the purchaser wants to get the best price, the purchaser should include in the contract a provision to

- A. accept all material produced under the contract
- B. cover changes in rates for material and labor
- C. cover unforeseen production delays
- D. eliminate penalties for late deliveries

**Answer: B**

**Question: 12**

Economic forecasts can be obtained from all of the following EXCEPT the

- A. ISM Report On Business®
- B. Department of Commerce
- C. Bureau of Labor Statistics
- D. Thomas Register

**Answer: D**

**Question: 13**

From a management point of view, what are the two basic categories of costs associated with inventories?

- A. Obsolescence and deterioration costs
- B. Storage and incremental costs
- C. Supplies and services costs
- D. Carrying costs and acquisition costs

**Answer: D**

**Question: 14**

In a "make-or-buy" decision, which of the following favors making the part?

- A. When design secrecy is required
- B. When there is a desire to maintain a multiple-source policy
- C. When volume requirements are small
- D. When production facilities are limited

**Answer: A**

**Question: 15**

In the health care sector, the PRIMARY motivation to outsource is to

- A. reduce technological risk
- B. reduce labor costs
- C. implement JIT
- D. shift patient liability

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